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STRATEGY GROUP

FUNDRAISING DOWN THE DRAIN The Leaky Bucket Benchmarking Study of Effective Fundraising 2014



Leaking Like
A Sieve!

Call the Productivity
Helpline!

Time for Preventive
Productivity
Maintenance!

Watertight!

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Bristol Strategy Group
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Introduction to the Study

We have been working with nonprofit organizations since we first opened our doors in 1995. For many years we focused on strategic planning, leadership and board development, and related services, but over time, we kept coming back to the question of fundraising. Year after year and agency after agency, we heard the same worries and complaints from nonprofit professionals and volunteers, who repeatedly told us they were not getting the fundraising results they wanted, but didn't know why, or how to fix things. After hearing these tales of woe over and over from hundreds of nonprofit agencies, executives, board directors and volunteers, we realized all that smoke probably meant there was a fire somewhere, so we set out to study the problem with the Leaky Bucket Assessment of Effective Fundraising.

Before we designed the study, we scanned available research and discovered a gap in the data. While there are extensive, meaningful, and scientifically valid studies of philanthropic giving and donor behavior, we could not find much information, if any, describing staff performance. The causal relationship between donor behavior and fundraising results seemed tenuous to us, difficult to analyze and thus to defend. Just because we could calculate gain/loss ratios of donors and income, we still didn't see the "why" behind those results. Why was the ratio between donors gained and lost so disappointing? Why were growth rates slow or flat, even when the economy was improving?

So we made it our business to evaluate the management of the fundraising effort, working on the assumption that fundraising results can be managed, even if the fundraising team is made up of volunteers or contractors rather than paid staff. We set out to discover the standard practices used to manage and control the fundraising effort, looking at these nine areas:

- How you qualify donor/grantor prospects
- How you acquire new donors
- How you retain donors
- How you develop donors through "up-selling" and "cross-selling"
- How you manage funding diversification
- Your staff resources for fundraising
- How you measure fundraising performance
- What you include in your fundraising 'toolkit'
- What techniques you use when fundraising results fall below desired levels

Section I: The Data collates responses for each statement in the assessment and presents results in bar charts. The appendix at the end of Section I profiles respondents by title, annual budget and size of development shop. Although responses came from most sectors of the nonprofit industry, more information is needed from higher education and arts organizations, which have been under-represented in the first two years of data.

Section II: Analytical Insights analyzes and interprets the findings. We identified three major areas of the fundraising discipline that suffer for lack of management attention, and thus are likely to produce undesirable levels of productivity. We bolstered our interpretation with references to two major ongoing industry surveys. First is the Fundraising Effectiveness Project 2013 (FEP), a joint venture of the Association of Fundraising Professionals and the Urban Institute, which has been active since 2008. The other is the Annual Report on Philanthropy 2013, produced by Giving USA. The Leaky Bucket has been gathering data since 2011, so there is an overlap.

While our findings are statistically meaningful, we plan to expand our pool of surveys to much higher levels. For one thing, the current size of the database makes it difficult to segment the data and benchmark it by industry sector or other data fields. For example, social services agencies currently represent about 33 percent of responses or roughly 200 agencies, too small a cohort to be statistically significant, although sufficient to observe meaningful trends. There is a commonly-held belief that the social-services sector is less productive overall than other sectors such as higher education, and we would like to prove this belief one way or the other. It is certainly true that many social service agencies have relied heavily on government funding for many years, leaving them vulnerable as their government sponsors are in the process of reducing financial support, as they have been doing ever since the Great Recession of 2008. Many of the agencies currently restructuring their fundraising efforts tend to be in the early stages of building a fund development initiative. We do not have enough data yet to determine if social-service agencies are more productive when they have large budgets, although anecdotal evidence suggests that size of budget has relatively less impact in this sector than might be expected.

On the other hand, higher education, from community colleges to major private universities, tends to have larger fund-development teams allowing for specialization among the team, and a large, ready-made pool of potential donors in their alumni. However, to date only 19 percent of Leaky Bucket responses have come from educational organizations and most of them are early-childhood and K-12 institutions, rather than colleges and universities. We are currently seeking to attract significantly more responses from higher education. Health care and health-care research are also relatively under-represented, at 15 percent of the study. Many of these agencies are associated with major medical schools, and thus may have fundraising structures like higher education in general, although grassroots health organizations may not. Arts organizations are another area of focus for us.

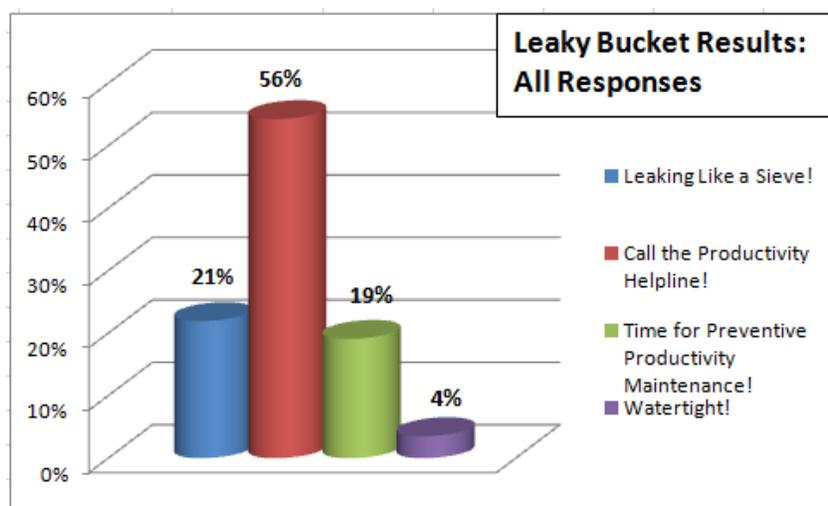
Your participation and willingness to encourage others to participate in this study will help us make our findings more meaningful. The Leaky Bucket Assessment will remain open and available at no charge indefinitely. If you have not completed an assessment, you may do so now at by visiting our site at www.bristolstrategygroup.com/nonprofit-leakybucket.

Section I: The Data

Introduction to Section I

The Leaky Bucket Assessment for Effective Fundraising measures the level of maturity of nine basic business disciplines that either contribute to or detract from the productivity of the fundraising initiative. Between April 2011 and December 2013, we received 597 valid¹ surveys from fundraising professionals, nonprofit executives, board directors and others from the United States, Canada, the United Kingdom, France, several African, South American and Caribbean nations, and one from the Galapagos Islands. Agencies from virtually every nonprofit sector, size of annual budget, and size of development shop participated, although higher education and arts organizations were under-represented.

The data are noteworthy. Only a small group of respondents - 4 percent - rated their agency's fundraising productivity at the highest level or Watertight. Meanwhile 21 percent came in at the lowest level, "Leaking Like a Sieve," and 56 percent scored at the next level up, "Call the Productivity Helpline,"



for a total of 77 percent scoring below the midpoint. These statistics suggest that few nonprofits think about or implement standards or controls for the purpose of achieving desired results at a manageable cost in time, effort and money. While it is inherently difficult to predict fundraising results, the Leaky Bucket suggests that nonprofits could improve the reliability of their fundraising results by

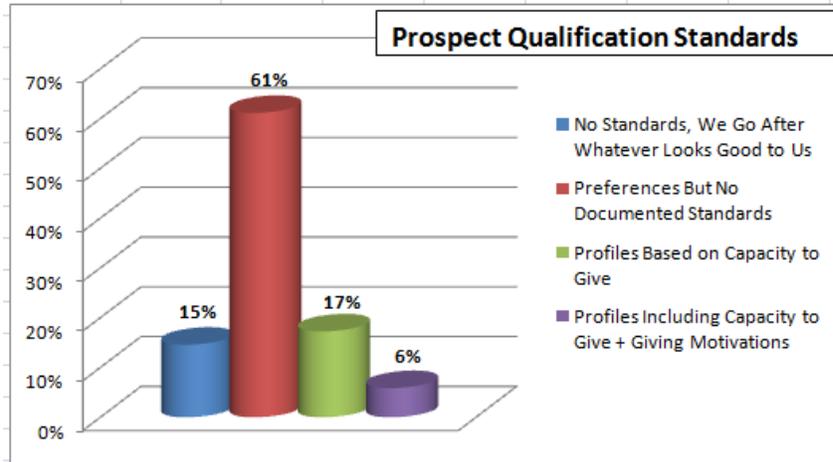
adopting management standards and practices that produce measurable outcomes.

Statement One: Practices for Qualifying Prospective Funders

Prospect qualification, or discovery, is the way to evaluate a funder's potential and likelihood of giving. Highly productive organizations use documented qualifying criteria including qualitative as well as

¹ To be considered valid, a survey must include responses to each of the nine statements, all of the profiling information requested, and a valid email address.

quantitative standards. However, a large minority, 15 percent, reported no documented qualifying standards at all. Sixty-one percent said that they had “undocumented preferences.” Only 17 percent use selection criteria limited to wealth profile and capacity for giving, while a mere 6 percent include donor motivation and charitable philosophy in their lists of qualifying criteria.

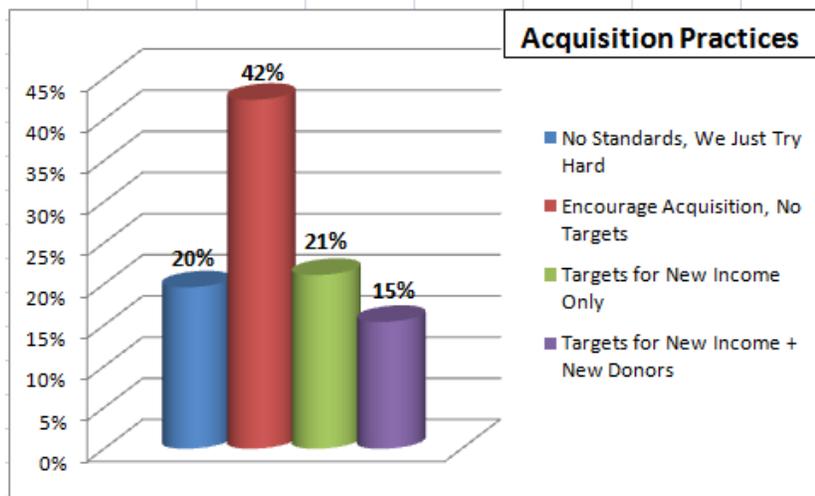


Without documented criteria, fundraising staff, including volunteers, may invest considerable amounts of time pursuing unqualified funding prospects, thus wasting time that could be used more productively by cultivating prospects with better potential for lifetime donor value. Once such criteria

have been developed and documented, and once all contributors to the fundraising effort are required to use them, productivity goes up.

Statement Two: Practices for Acquiring New Funding Sources

Donor acquisition is always necessary, no matter how efficient the agency may be at donor retention. Yet 20 percent of respondents state they have *no* standards for donor acquisition, and another 42

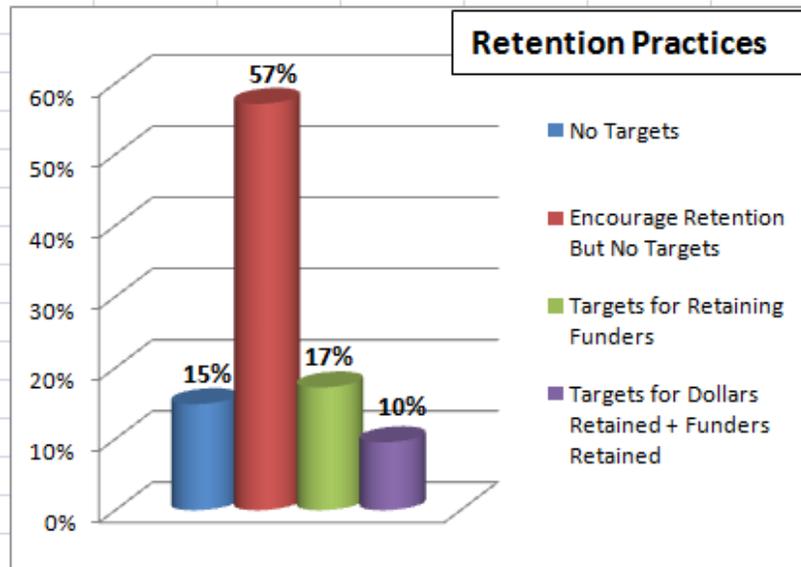


percent say they are “encouraged” to acquire new funders. “Encouraging” your staff to achieve something doesn’t produce accountability. Since you can neither manage nor improve a business function if you can’t measure it, this area is weak. Without new-funder acquisition, no fundraising organization will build capacity or even sustain current levels at reasonable costs. No matter how

careful you may be at retaining donors, you will always lose some through attrition, if nothing else.

Statement Three: Practices for Retaining Current Funders

Donor retention tends to be easier and less costly than acquiring new donors. Yet 15 percent of

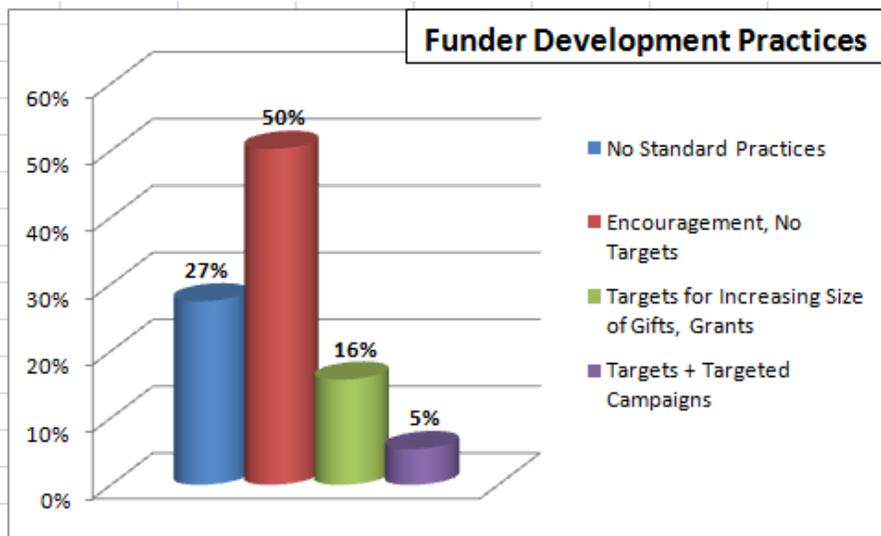


respondents report having “no targets” for retaining donors and 57 percent state they are only “encouraged” to retain current funding sources. Only 17 percent had targets for retained income, and a mere 10 percent had targets for income plus number of donors retained. The lack of performance targets for donor retention has a direct negative impact on fundraising productivity; out of sight is out of mind. It is estimated that the cost of acquiring a new donor is as much as six times

higher than the cost of retaining one. Whether that is strictly true, donor retention pays big dividends.

Statement Four: Practices for Upgrading Your Funders by Cross-Selling and Up-Selling

A corollary of donor retention is donor development or upgrading, through the use of up-selling, or asking donors to increase the size of their gifts, and cross-selling, which means getting funders to

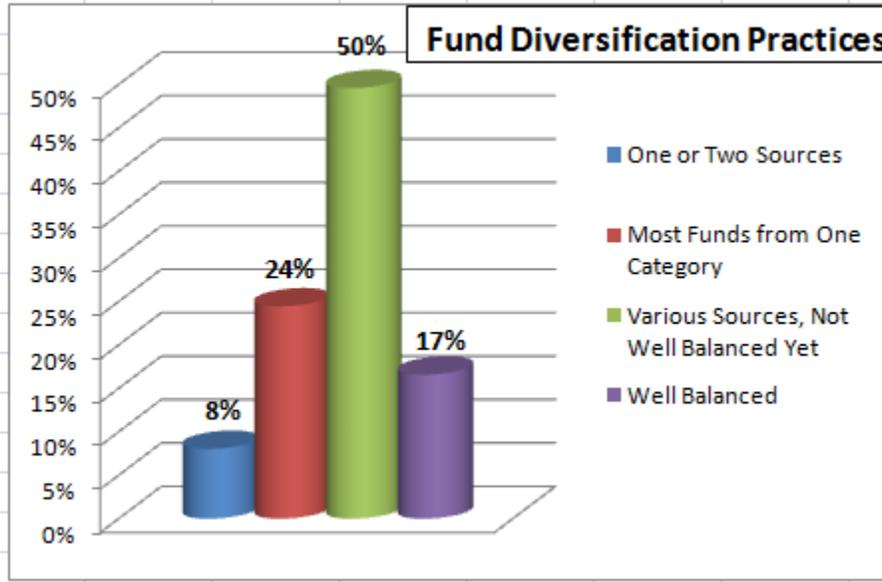


participate in more than one campaign at a time. The practice of upgrading funders is tied closely to donor retention and stewardship. Regrettably, we find that 27 percent of respondents had no standard practices in place, while 50 percent were encouraged to upgrade their donors. Only 16 percent had any targets for increasing the size of

funders' gifts or grants, and only 5 percent included campaigns targeted for the purpose of upgrading funding sources.

Statement Five: Practices for Diversifying Your Funding Streams

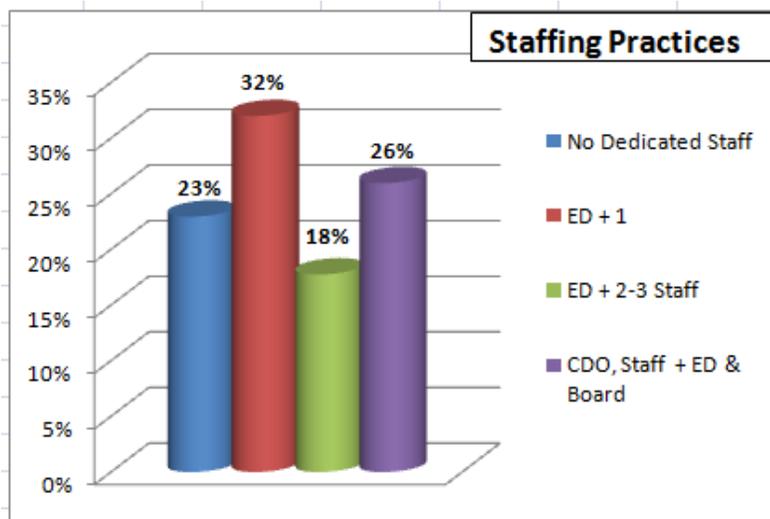
Funding diversification describes the range of the agency's funding sources. The fewer the funders, the more vulnerable the agency. About half of all respondents chose "Various Sources, Not Well Balanced



Yet." Only 17 percent said their funding streams were well balanced. Twenty-four percent said most of their funds come from a single category. Eight percent are funded by one or two sources, making them the most vulnerable, especially if their funds come from government agencies. The trend among government at all levels has been to reduce the financial support they give to private nonprofit agencies.

Statement Six: Staffing Practices in Your Nonprofit

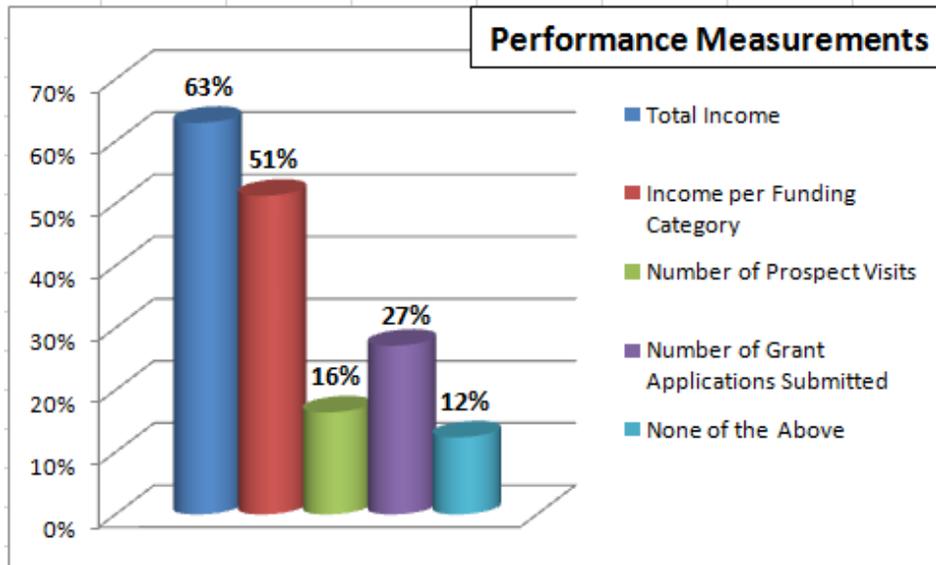
While larger agencies tend to have larger development shops, we see that 23 percent of respondents leave all fundraising chores to the executive director, and 32 percent have just one additional staffer. In



these shops, the same personnel also manage marketing, outreach, administration, even programs, as well as fund development. When executive directors must raise all the money as well as handle all programs and administrative tasks, the agency's fundraising productivity is compromised accordingly. Only 18 percent have two or more staff besides the senior executive. Larger staffs were reported by 26 percent of respondents.

Statement Seven: How You Measure Fundraising Performance

The majority of respondents, 63 percent, use total income as a performance measure and 51 percent use “income per funding category.” We wondered why both measurements were not selected by all

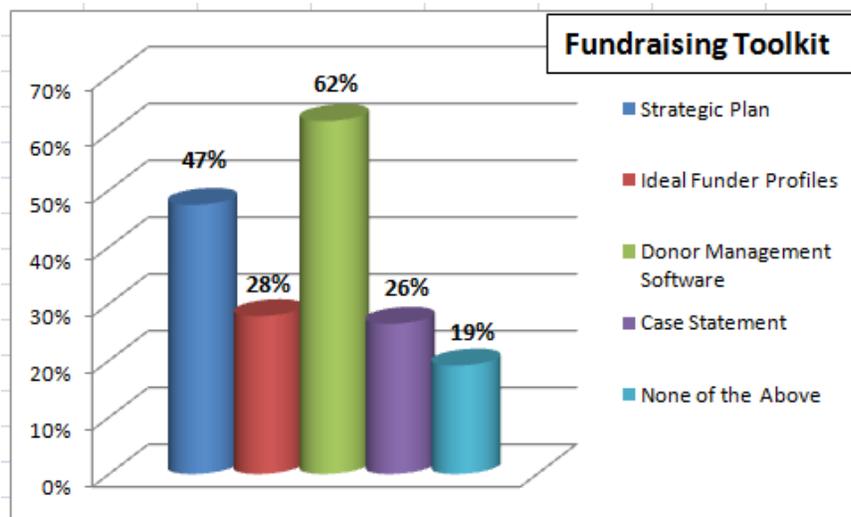


respondents, since they are so important. On the other hand, these are trailing or lagging indicators, valuable but appearing too late to correct course or improve their conversion ratios. Only 16 percent chose the option “number of prospect visits,” and 27 percent selected

“number of grant applications submitted,” both of which are commonly used as early-stage indicators. Without more and better leading indicators, metrics such as total income and income by category may not reveal accurate assessments of productivity.

Statement Eight: What’s in Your Fundraising Toolkit

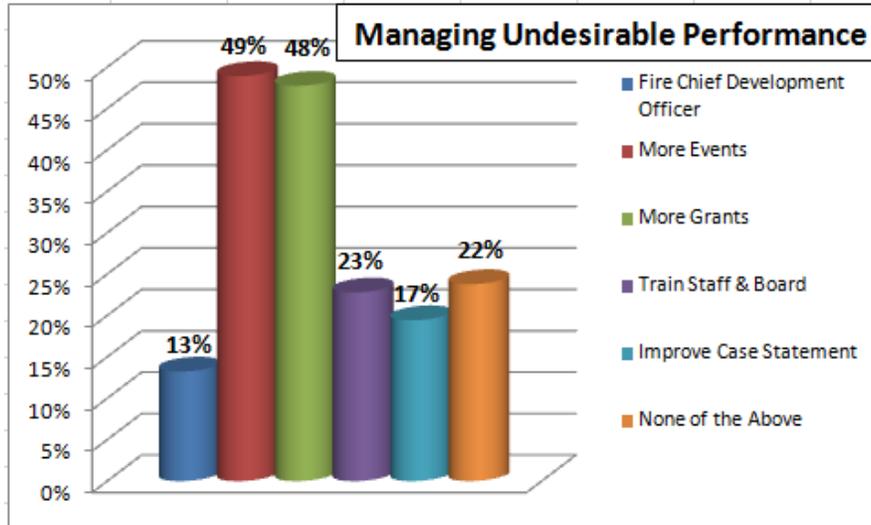
Less than half of the survey population has a strategic plan. Barely more than a quarter, or 28 percent, rely on a documented ideal funder profile (see Statement One). While 62 percent state they have donor-



management software or at least a homegrown spreadsheet, a mere 26 percent say they have an up-to-date Case Statement, or case for support. Without these basic tools, the fundraising shop is at a disadvantage. They have been set up to fail, or at least to work harder than they need to.

Statement Nine: What You Do When Fundraising Performance Falls Below Desired Levels

This statement provides the most revealing insights of the entire survey. As we discuss in Section II, the responses suggest that nonprofit leaders *fail* to use undesirable results as a springboard for



improvement initiatives. The graph shows that the most common responses to undesirable fundraising results are tactical in nature. Thirteen percent selected "fire the chief development officer," a sometimes necessary but always costly method of improving the productivity of the fundraising effort. Forty-nine percent conduct more fundraising events, and 48 percent write more grant applications, activities with high levels of financial risk and only low to moderate levels of return. Only 23 percent provide training for board and staff, and a very small proportion, 17 percent, work to improve the Case Statement, two mechanisms offering moderate to low financial risk, with moderate to high returns.

and 48 percent write more grant applications, activities with high levels of financial risk and only low to moderate levels of return. Only 23 percent provide training for board and staff, and a very small proportion, 17 percent, work to improve the Case Statement, two mechanisms offering moderate to low financial risk, with moderate to high returns.

Survey Design and Scoring

The Leaky Bucket Assessment for Effective Fundraising was developed by Ellen Bristol in collaboration with Pam Stein, consulting principal of Clientize.com, a firm specializing in marketing surveys, database research and e-mail marketing. The first six statements allowed a single selection, with options offered in ascending order of productivity. Statements 7, 8 and 9 allowed respondents to choose multiple selections; each selection added one point to the overall score. Based on total scores, surveys were sorted into one of four categories or quartiles:

- Leaking Like a Sieve!
- Call the Productivity Helpline!
- Time for Preventive Productivity Maintenance!
- Watertight!

Breakdown of Responses

- **Total Respondents:** 597 between April 1, 2011 and December 31, 2013
- **Respondent Titles:**
 - CEO's - 22%
 - Chief Development Officers and Other Senior Staff - 37%
 - General Staff Members - 27%
 - Board Members - 2%
 - Other - 10%
- **Size of Development Shop:**
 - No Dedicated Staff - 6%
 - ED + 1 or 2 - 43%
 - 3 to 5 - 37%
 - 6 to 10 - 8%
 - More than 10 - 15%
 - Don't Know/Prefer Not to Answer - 2%
- **Level of Annual Income**
 - >\$1MM -36%
 - \$1MM to \$4.9 MM - 30%
 - \$5MM to \$9.9MM -9%
 - \$10MM to \$20MM - 7%
 - <\$20MM -7%
 - Don't Know/Prefer Not to Answer -10%
- **Sector:**
 - Arts - 9%
 - Community Development - 9%
 - Children's Services - 10%
 - Economic Development - 2%
 - Education - 19%
 - Health Care and Health Care Research - 15%
 - Government - 1%
 - Social Services - 33%
 - Other - 1%

Section II: Analytical Insights

Introduction to Section II

In Section II, we analyze and interpret Leaky Bucket data, delving deep into its implications for fundraising productivity. Our analysis produced three areas implicated in the maintenance of desirable levels of fundraising productivity:

- 1. The Need to Set Clear Performance Expectations**
- 2. Leadership's Response to Undesirable Results**
- 3. Managing Risks Associated with Fundraising Time**

Our primary sources of comparison are the Fundraising Effectiveness Project 2013 (FEP), a joint venture of the Association of Fundraising Professionals and the Urban Institute, and the Annual Report on Philanthropy 2013, by Giving USA. We also had the opportunity to interview a representative sample² of respondents, around 20 percent, and received anecdotal evidence appearing to corroborate our statistics. Some of these unstructured interviews provided important insights enriching this benchmarking study.

Raising money to support a nonprofit is tough to do. We have yet to meet a nonprofit professional, executive, board director or volunteer who hasn't said, at least once, that raising money for their organizations is a challenge, or worse. But the standard reaction to fundraising problems, as shown in Leaky Bucket data, tends to be tactical, focused largely on trying to do the same things over and over, or do them differently, or at least more often. Regrettably, the advent of intriguing new technologies such as social media and online donation systems, along with other "shiny objects," may further distract leadership from the deeper underlying issues. The missing link is management controls, the guidelines, metrics, business intelligence and reporting methods that drive visibility and accountability. The Leaky Bucket Assessment was developed to examine certain elements that either help or hinder productivity, based on key principles of formal business-process management. Business process management, comprising techniques such as Total Quality Management (TQM), Six Sigma, and the whole range of performance-excellence models, has been evolving for nearly seventy years, producing significant gains in both productivity and

"I hated completing your Leaky Bucket Assessment, since I knew we'd get such a low score. But I never thought I'd thank somebody for flunking us!" *CFO, Halfway House for Ex-Felons*

"Now I've got some ammunition to share with my board, proving we need to build fundraising capacity." *Executive Director, Historical Museum*

² All Leaky Bucket respondents are offered the opportunity to review their findings with someone from BSG. The 20 percent who have done so were self-selected.

innovation where it is employed, yet it seems to have largely bypassed the nonprofit sector and the fundraising discipline in particular. Across all Leaky Bucket responses we see evidence to that effect: expectations are not documented; if they exist at all they are stated in the form of “preferences” and “encouragement.” Responses when results are undesirable tend to be tactical, such as throwing more events at the problem. Business-process management, to be effective, relies on pertinent metrics and analytics which support the following four principles, yet our respondents seem to have missed school that day:

- *You can't manage or improve it if you can't measure it* - and you can't measure it if you don't write down what you're measuring. Leaky Bucket data show that as many as three quarters of respondents stated that they do not establish, document or utilize measurements or benchmarks in any aspect of fundraising.
- *What you measure is what you get* - so if you measure things that don't matter, you'll get lots of them, often at the expense of what you really want. Leaky Bucket data show that as few as four percent of respondents measure the things that matter, depending on the business function in question.
- *You can't figure out much by using a single measurement* - yet where measurements exist in fundraising they tend to measure income and virtually nothing else.
- *If the only things you measure happen after the process is complete, you haven't learned anything about the process* - yet where measurements exist they are largely so-called trailing or lagging indicators.

Fundraising is now, and always will be, of paramount strategic importance to any and every not-for-profit business, regardless of the type, size or sector of the business. While agencies with larger development shops may be less vulnerable than smaller, grassroots, or startup organizations, size is not a guarantee of productivity. Many larger organizations (over \$50 million in annual income), particularly those in social services, are poorly equipped to thrive, often because they have relied on government funding for many years and are just now starting to build a fundraising machine. Yet these agencies need predictable, consistent income as much as any other nonprofit. Those who can manage the effort to raise the money productively are substantially ahead of the curve. They will be more resilient, regardless of the vagaries of the economy.

Point One: The Need to Set Clear Performance Expectations

People do what's expected of them. Failing to set clear expectations contributes directly to the lack of desirable results.

In business, the phrase “clear expectations” translates into the term “instructions.” When expectations are clear, workers have been instructed, preferably in writing, to achieve something specific within a defined period of time. Ideally, the things you instruct your team to do should be measurable and documented, and must relate directly to one of the organization’s major strategic objectives. Business-process disciplines such as Total Quality Management and Six Sigma, to name just two related fields,



Leaking Like a Sieve!

have become very exacting in this regard, leading to astonishing levels of productivity and innovation in fields as diverse as medical research and civil engineering, toy making and astrophysics. However, the data suggests these disciplines are rarely deployed in the nonprofit business function most needed to sustain the organization over time: raising money.

According to Leaky Bucket data, the majority of respondents stated a lack of clear, documented expectations or performance targets for such basic functions as funder acquisition (62 percent of the study), funder retention (72 percent), and funder development or upgrading (77 percent). Only a small minority reported clear, documented expectations for the same areas, with 15 percent reporting effective productivity for funder acquisition, 10 percent for funder retention, and a mere 5 percent for upgrading funders’ level of giving.

These findings correlate closely with the Fundraising Effectiveness Project, which has identified donor retention as the element most required achieving effective fundraising. Even though it is cheaper and easier to retain current donors than it is to acquire new ones, the FEP shows net losses of retained donors, with 105 donors lost for every 100 gained for the year ending 12/31/2013. The data were even worse for Y/E 2012, with 107 donors lost per 100 gained.

Statement Number Three of the Leaky Bucket Assessment asks respondents to choose their agency’s standard practices for retaining donors. The responses we have received shed a new light on donor retention, and corroborate FEP results.

- A small proportion of respondents - 15 percent - report no standards or targets for retention,
- More than half of respondents - 57 percent - report they are “encouraged” to retain donors but have no standards or targets for doing so.

Of the remaining respondents, only 17 percent report they have written targets for retaining donors, and a mere 10 percent have targets for numbers of donors retained plus the amount of income retained from them. No wonder donor-retention rates are so low. Nobody’s instructing the fundraising team to pay attention to the problem, or holding them accountable for results.

Responses to Statement Seven, which asks how the agency measures fundraising performance, also reinforce this lack of clear expectations. Only 62 percent measure total income and 51 percent, income by funding category. These are perfectly wonderful things to measure, and they are relatively easy to track. It's axiomatic that organizations need to measure their income growth. Yet a significant proportion of respondents don't measure them. We had hoped to find 100 percent compliance in measuring total income and income by category, but were disappointed.

No wonder donor-retention rates are so low. Nobody's telling the fundraising team to pay attention to the problem, or holding them accountable for results.

On the other hand, overall income and income by funding category are trailing or lagging indicators, which reduce their ability to measure productivity. Measuring a process only by its end results, or trailing indicators, is not an effective means of evaluating efficiency or effectiveness. If you only measure things that happen after the process is complete, you haven't learned much about the process. So even if you bring in enough money from enough funding sources, you still have to ask, "How many funders did we *fail* to bring in, to get to the number we *actually* brought in?"

In this statement, the options offered for leading or early-stage indicators included "number of prospect visits," which was selected by only 16 percent of respondents, and "number of grant applications submitted," at only 27 percent. These are useful metrics. While these options could be construed as

Performance metrics are useful, but it's easy to become addicted to them. Too many metrics, or metrics that are difficult to measure, can make a mess of things. Sometimes less is more.

"outputs" rather than "outcomes" or results, they offer some insight into earlier stages of the fundraising process and, again, are relatively easy to measure and track. There are other, more sophisticated early-stage indicators associated with the opportunity pipeline. These are called "opportunity stages" in platforms for customer-relationship management in corporate sales, and constituent-relationship management systems in the nonprofit sector. Agencies with automated donor-management platforms

containing modules for opportunity management may use opportunity stages as leading or early-stage indicators. Early-stage indicators help to identify insights earlier in the process, and make it possible to modify things at the point where they are less costly to improve, and more likely to produce better results.

Responses to Statement Eight add further emphasis to the need for documented performance expectations. This statement asks respondents to check all items the agency includes in its fundraising "toolkit" or infrastructure. Options include the strategic plan with specific fundraising goals and objectives, and the formal case statement. Only 47 percent of respondents stated their agencies had a

strategic plan, leaving more than half, or 53 percent, without one. If this is the case with our 600-odd respondents, no wonder fundraising performance has so much room for improvement.

Only 26 percent of respondents said they have a formal case statement; only 28 percent have documented ideal-donor profiles; and donor-management software including a homegrown spreadsheet, comes in at a mere 62 percent. While 62 percent seems high compared to some other selections, it still means that 38 percent have *no* efficient, automated, or centralized ways to keep track of their donors and prospects.

People indeed do what’s expected of them, yet those who manage or lead fundraising organizations have been remiss in spelling out precisely what those expectations might be. In funder acquisition, retention and upgrading, from 15 to 25 percent of respondents stated their agencies had “no standards,” and around half or more of all respondents stated they were “encouraged” to acquire, or retain, or upgrade. “Encouraging” your staff to do something is ineffectual, to say the least. They’ll do it if they remember; if it’s not raining out; maybe next Wednesday if they have time; or if they’re not under pressure to do something else more urgent right now.

"Out of sight" means "out of mind." It also means well-intentioned, hardworking fundraising professionals simply don’t know when they’re doing a good job and when they’re not. Even worse, they might actually know they’re doing a terrible job, yet have few tools to repair the damage other than trying harder, worrying, and holding more events.

Respondents reporting clearly defined targets were in the minority, ranging from a high of 15 percent reporting targets for amount of new income and number of new funders acquired, 10 percent for amount of income and number of funders retained, down to a low of 5 percent with targets for number of funders upgraded, along with targeted campaigns. We segmented the data by title of respondent (senior executive compared to line staff) and by size of annual budget (under \$4.9 million per year compared to \$5 million and over per year), to see if there were any meaningful differences based on segmentation. Findings were relatively consistent regardless of the segments reviewed, as shown here.



Conclusion to Point One: The Need to Set Clear Performance Expectations

The Fundraising Effectiveness Project reports a net loss of retained donors. The Leaky Bucket study reports the majority of respondents fail to set performance targets for retaining donors. Looked at together, it's easy to see a correlation between these results. Leaky Bucket data also show a lack of performance targets for funder acquisition and funder upgrading. No wonder overall fundraising results are less than desirable. These are persistent organizational challenges which require an organizational response. Those who do the work of fundraising may well be skillful and experienced, but their talent may not be enough to ensure predictable, consistent income or to build additional fundraising capacity.

What's missing, as revealed by the Leaky Bucket data, is management controls, particularly the performance targets, metrics and expectations needed to keep the effort on task and on target.

Recommendation: Set and Document Clear Performance Expectations

The first, simplest and least costly of all possible improvement initiatives for fundraising is this: establish and document performance targets. Tell your people how much new income, and from how many new funding sources, you need them to produce. Tell them how many funders you need them to retain, and how much income you'd like them to produce from those retained donors. Tell them what proportion of current funders you need them to upgrade, and by how much. When management provides such guidance, the business performs better, and employees are more engaged and motivated.

Regrettably, many managers find this simple prescription extremely difficult to administer, usually for one of two reasons. First, they don't know "how much" is "enough." If the organization has not set such targets in the past, it lacks a baseline, which may make it more difficult to set just the right targets. If that's what is holding you back, start with an educated guess, and refine it over time by use.

Second is the temptation to use performance targets in a punitive manner. Avoid the style of management that suggests you're threatening the fundraising staff to "do this *or else*." After all, nobody does fundraising in a vacuum; every fundraiser is part of a team. Instead, review overall performance against plan regularly (once a month is fine) and analyze what you're seeing. Make no judgments about the "goodness" or "badness" of the results. Remember, results are just results; they are never inherently good or bad.



Watertight!

Point Two: Leadership's Response to Undesirable Results

When leaders face the brutal facts, undesirable results become positive opportunities for learning and improvement. Engaging in a tactical frenzy only makes things worse.

Facing the brutal facts means knowing what's *not* going well, and doing something about it without going into a panic. Jim Collins, author of *Good to Great* and the monograph *Good to Great and the Social Sector*, says that the greatest leaders are willing to face the brutal facts when their organizations encounter undesirable results. They tend to welcome these results and use them as opportunities to learn and improve. They ask "what could we do differently, less expensively, or more effectively up here, early in the process, so we can get better results downstream in the future?" And they are far less likely to jump into a tactical frenzy, sometimes referred to as the "bake sale mentality."

Regrettably, nearly half - 49 percent - of Leaky Bucket respondents selected the option to "hold more special events" when fundraising results fall below desired levels. Also, 48 percent selected the option "write more grant applications." While special events provide meaningful income to many nonprofits, doing more and more of them simply does not solve the problem of raising sufficient money. Rather, the more special events, the greater likelihood of diminishing returns. That extra golf tournament, barbecue or walk-a-thon may discourage current donors and exhaust the staff.

The statistics suggest an urgent need for better management of the fundraising function.

- *13 percent of respondents report that their agency's standard practices include firing the director of development.* There is no question that sometimes you need to fire the development director. However, if the agency has a revolving door to the director's office, leadership may

Holding too many special events and writing tons of grant applications are high-cost investments paying only low to moderate returns.

have failed to set clear performance expectations or played the blame game. Replacing the executive in charge of development is a high-risk, unknown-return (but probably a poor one) proposition.

- *49 percent of respondents report they conduct more special events when results are below desired levels.* A growing list of special events leads to donor fatigue and may obscure the reasons results were undesirable in the first place. Few agencies have the capacity to handle more than one or two signature events per year. Adding more weakens return on investment, and drives up costs. In other words, these are high-risk, low-return propositions.
- *Another 48 percent reported they produce more grant applications when results are undesirable.* Grant-seeking work is time-consuming and relatively risky, which may be one reason why grants-based funding makes up only around 14 percent of all charitable income, according to Giving USA. Some agencies have perfected the skills of grant-seeking and profit from this income stream. However anecdotal evidence suggests that many nonprofits, especially local, grassroots

and start-up agencies, have a tendency to throw grant applications at the problem without appropriate research, assessment of the odds of success, or by simply ignoring the grantor's guidelines including matching requirements. These sloppy practices are more likely to occur in smaller organizations, the ones who can least afford it.

Statement Seven offers two options providing moderate to high returns on investment at relatively low cost to the agency. Nonprofit leaders are in the best position to introduce a culture of continuous learning to both staff and board, yet only a minority of respondents selected these options.

- *23 percent provide training for staff and board.* Training staff and board is a moderate- to low-cost investment with a decent likelihood of moderate to high returns. Often such training is available locally or on-line, at affordable prices or even for no charge. There is an enormous body of knowledge concerning fundraising; at the very least leaders can urge staff and board to read pertinent books and articles. Such reading encourages learning and experimentation.
- *A mere 17 percent work on improving their case for support.* This is another low-cost investment offering moderate to high returns. We were frankly shocked that this option was selected by only 17 percent of respondents, since the case for support is of such deep importance. Is the case for support one of those items that seem important but not urgent? We know that the urgent will almost always drive out the important - if we let it. Again, it is up to leadership to ensure that the case for support is always up to date, readily available, and used consistently.

Note that a *minority* of respondents utilized the options of training and revising the case for support when fundraising results are undesirable. These techniques are lower in cost and more likely to provide moderate to high ROI.

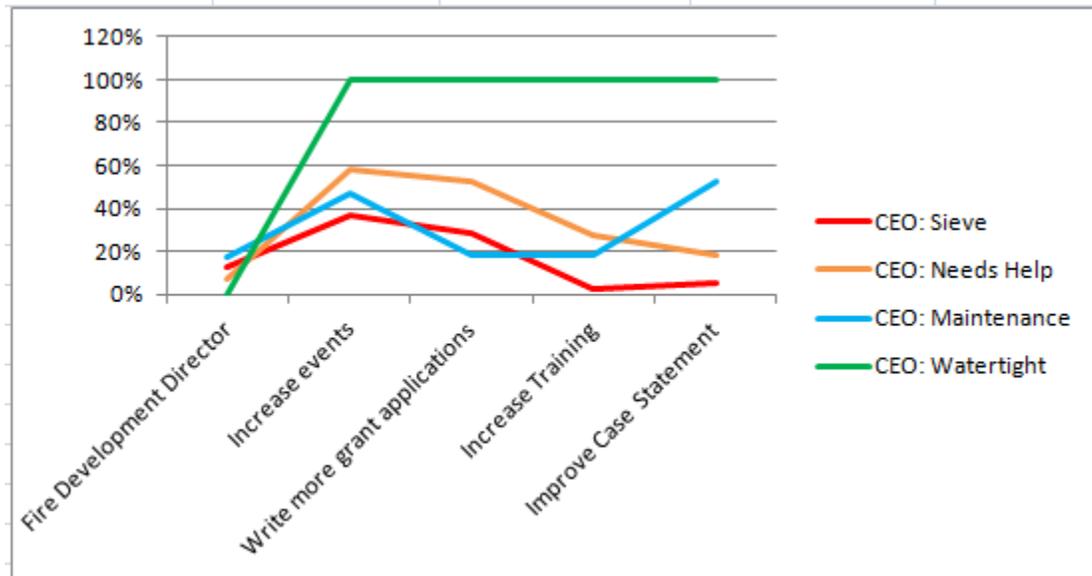
In Point One, we discussed the need to set clear performance expectations. Staff members have an obligation to understand and manage the expectations that have been set for them, and it's not a bad idea for them to set their own if leadership fails to do so. But leadership bears the ultimate responsibility for establishing those expectations and for holding the team accountable for results.

These statistics demonstrate an unwillingness to face the brutal facts. Nonprofits need great leadership, especially in times when social, economic, and technological changes are as volatile as they have been since the beginning of the 21st century.

Conclusion to Point Two: Leadership's Response to Undesirable Results

Current Leaky Bucket statistics suggest that nonprofit leaders, including governing boards, tend to address undesirable fundraising results in a knee-jerk manner, by throwing tactics at the problem. Relying on more events and more grant applications will very likely cause staff burnout, lack of motivation, and even fatigue and distrust among your donors. There is an urgent need to upgrade the

response of leadership when fundraising results fall below desired levels. There is an even more urgent need for leadership to take charge *before* results become undesirable, by establishing expectations, guidelines, and other methods to reduce uncertainty and complexity.



Statement 7: Responses by CEO's

Fundraising results, and virtually all other business results, may become undesirable for a myriad of reasons, including causes well beyond the control of leadership, such as severe weather (think of Hurricane Sandy), economic fluctuations (think of the Great Recession of 2008), and even something otherwise desirable: achieving the nonprofit's mission. The March of Dimes, originally founded to battle polio, achieved their mission with the invention of the first effective polio vaccine in 1952. Once the polio problem was solved, what justification was there for raising money to combat the disease? Eventually the March of Dimes had to create a new mission or close their doors. Until they redesigned their mission and purpose, fundraising results were not desirable.³

Recommendation: Engage Leadership in Continuous Improvement

Invest in leadership development. Don't use a lack of money or time as the excuse for failing to improve leadership skills throughout the organization. There are thousands of books, workshops, webinars, and other resources available for just this purpose, and many of them are free or low in cost. If you don't have a line item in this year's budget for leadership development, make sure you put it in next year's. Your employer or governing board won't pay for it? It's your career, after all; *you* pay for it.

³ The March of Dimes celebrated its 75th anniversary in 2012, with its current mission of fighting premature births and birth defects.

Begin building the skills and tools of leadership immediately. These include the recommendations made in Point One above: establish and document specific performance targets for all strategic aspects of fund development, namely donor acquisition, retention and upgrading. While it is desirable to seek input from the fundraising team, at the end of the day it is the obligation of leadership to set those expectations. When staff members don't know what's expected of them, and leaders don't hold them accountable for results, there are no management controls in place, and performance is a crap shoot.

To exercise leadership means to set direction, in the form of documented goals and objectives, obtain accurate and timely information on the team's performance compared to those objectives, and hold those being led accountable for results. Good management controls such as key performance indicators, success metrics and reporting methods provide the insights leadership requires to figure out what's going on, and take meaningful action to resolve the underlying issues - before throwing the next barbecue, bake sale or raffle.



Watertight!

Point Three: Managing Risks Associated with Fundraising Time

Fundraising time is scarce and precious. Every hour wasted on unqualified prospects or unproductive activities raises the risk factor of the time left over for raising money.

There isn't a lot of time to work on fundraising tasks, even for those who consider themselves full-time fundraising professionals. Once you take away the time devoted to stuff that's not fundraising - vacations, sick days, holidays, weekends, sleep, record-keeping and administration, not to mention a few "lost" days - the average full-time fundraiser ends up with somewhere between 900 and 1100 hours of time left to raise money, out of the 2,000 hours a year the IRS expects us to work.⁴ By the way, if the only person doing fundraising is the executive director, assume far fewer hours will be available for raising money, since the ED must also run the programs, manage the money, report to the board, and clean the bathroom, leaving far less time for writing grant applications and cultivating donors.



Each of the hours allocated for fundraising work carries an "opportunity risk factor" ranging from hundreds to thousands of dollars. The opportunity risk factor describes the potential income placed at risk of loss for every hour invested in direct fundraising activities. Once an hour has been consumed, it's gone forever. Time is the least elastic of all fundraising resources, and when it's gone, it's gone, so using that time unproductively is not such a great idea. Leaky Bucket data in this area are provocative, and suggest there is insufficient attention being paid to conservation of resources.

Hours invested in gift or grant opportunities that never come to fruition mean fewer hours left to do the job right, and each of the remaining hours carries a correspondingly higher risk factor. Hours invested in running events that don't break even, or conducting outreach or appeal campaigns with poor results, also drive the opportunity risk factor higher and higher.

Let's say you need to bring in a million dollars in the next twelve months, but you only have 900 hours to do so, after all the non-fundraising activities are subtracted from your calendar. Each hour you devote to fundraising, such as making appointments, meeting with donors, producing gift proposals, and everything it takes to build and sustain relationships, would carry a risk factor of \$1,111. For every hour invested in an unqualified prospect, an unproductive activity, or a grant application the agency has little chance of winning, your risk factor goes up accordingly. Blow fifty hours putting together an event that ends up losing money and your risk factor has gone up to \$1,176 per hour. Subtract another fifty hours for setting up your Facebook page and running the social media campaign, and your risk factor is now

⁴ Calculate your own Opportunity Risk Factor by downloading the [Opportunity Risk Calculator](#) from our website.

\$1,250 per hour. Put another fifty hours into persuading your board of directors to accept a give-or-get policy (and having them turn you down), your risk factor has now reached \$1,333 per hour, plus now you only have 750 hours left to raise money. Not to mention any of the hard costs of fundraising, such as website maintenance, collateral marketing materials, and gas mileage.

Contrary to the prevailing myths, working longer hours does *not* help. Trying to raise money at 3 AM Sunday morning, or while you're logging in your 67th hour this week, is actually counter-productive. We are more prone to errors when we're tired, and it takes twice as long to get half as much done.

Considering the strategic importance of raising money, it is troubling to see how Leaky Bucket statistics demonstrate poor controls over fundraising time. The first, and most damaging, is the lack of a documented profile for determining if a funding prospect is qualified, or in other words if that prospect offers reasonable potential for lifetime funder value to the nonprofit. Without such a profile, or set of criteria for qualifying funder potential, fundraisers are on their own, relying on past experience, luck, skill, charm and the hope of divine intervention.

Without criteria to differentiate between high-potential and low-potential funding prospects, fundraisers don't know which is which. Thus time leaks rapidly out of their fundraising "buckets."

Statement One asks respondents to choose their standard practices for qualifying prospective grantors, donors or corporate sponsors. The great majority reported *no documented standards or benchmarks for prospect selection*. Only 17 percent mentioned standards based only on capacity for giving, and a mere 6 percent stated that their qualifying criteria included qualitative insights such as giving history and donor motivation.

- A minority, 15 percent, said they had no standards or benchmarks; they just "go after what looks good to us"
- A significant majority, or 61 percent, said there were "preferences but no documented standards"
- Another small proportion, 17 percent, reported standards based strictly on giving capacity
- A tiny percentage, only 6 percent, said they had qualifying criteria including donor motivation as well as the standard facts of gift capacity.⁵

⁵ We attempted to segment responses to Statement One by title of respondent, to see if there were differences based on title or level in the agency's hierarchy. There were apparent differences between responses from CEO's and responses from staff, but at this time the total number of respondents is still too small to determine if that discrepancy is statistically meaningful.

When the organization lacks criteria for qualifying prospective funders, there is a high likelihood that time will be wasted pursuing leads that never go anywhere. Sometimes these prospects linger in the opportunity pipeline for months, but nobody has the guts to declare them lost. On the other hand, when development officers have reliable criteria for prospect selection, they are much more likely to rule out prospects with poor or no long-term potential, and to rule them out much sooner. There is little justification for pursuing funding prospects for weeks or months, when the existence of a documented benchmark will flush out the unqualified ones more quickly, often in the space of a single meeting.

There is little justification for pursuing funding prospects for weeks or months, when a documented set of qualifying criteria will rule out the unqualified ones far more quickly.

Results from other Leaky Bucket statements also point to areas where time is wasted, or at least managed unproductively. These include the relative lack of performance metrics for acquiring, retaining, and upgrading funding sources. Metrics like these tend to keep the team on task and on target, whereas without such clarity, the urgent tends to overwhelm the important. Eventually everything becomes an emergency, and consequently a less productive use of time available.

Agencies with effective strategic plans are more likely to get the most out of time than those that don't, yet as we saw in the discussion about Point Two, more than half of respondents (53 percent) said their agencies lack a strategic plan. Executives from such agencies have often told us they "don't have time" to do any planning. The same problem occurs regarding the existence of the formal Case Statement. These are two issues clearly justifying the up-front investment of time, since the returns on such investments are significant. Without them, time will be wasted, even squandered.

Conclusion to Point Three: Managing Risks Associated with Fundraising Time

Leaky Bucket data reveal that a majority of responding agencies waste considerable amounts of expensive, irreplaceable time, thus significantly lowering the productivity of their fundraising initiatives. The time it would take to define qualifying criteria for prospect selection, establish performance expectations, prepare a strategic plan, or develop a reliable case for support will be repaid handsomely. When the fundraising staff has reliable criteria for qualifying donor prospects, the cultivation cycle is likely to be much shorter. When they know what is expected of them in terms of their performance - how much, how many, how often, to which standards - they are more likely to stay focused. When they don't have to invent a new case for support every time, and merely have to pull it up from the shared drive on the agency's server, they have more hours to devote to cultivation and stewardship.

If time continues to be misused or wasted, nonprofit organizations find it more and more difficult, time-consuming, and risky to produce financial stability. If leadership is unable or unwilling to tackle these issues, no one else will either.

Recommendations: Managing Risks Associated with Fundraising Time

Managing time productively requires the intervention of leadership and the establishment of management controls. Organizations lacking documented funder profiles run a higher risk of wasting time on unqualified or under-qualified prospects than those who have such profiles at hand. Although it would be ideal if the qualifying criteria included qualitative as well as quantifiable characteristics, some criteria are better than none at all. Organizations failing to establish, document, and track progress against performance expectations also run a higher risk of wasting time; without priorities governing their time, the development staff can't discriminate between the urgent and the important, the certain and the uncertain.

Every effort made to clarify performance expectations, including the establishment of qualifying criteria, has a beneficial impact on the way the fundraising staff manages its workload, eventually leading to desirable fundraising results. The existence of such expectations, including the various performance indicators, measures of success, and documented targets, keeps the effort to raise money on task and on target, with the added benefit of helping to pinpoint where the process has encountered obstacles or bottlenecks. These techniques bring clarity to the fundraising team as well as the managers and leaders of the organization.



Watertight!

Acknowledgments

My first debt of gratitude must go to the 597 intrepid souls who took the plunge and completed their Leaky Bucket Assessments. Without you there would be no benchmarking study. I would particularly like to pay extra gratitude to the hundred or so respondents who took me up on my offer to review their assessments with them by phone. Your unstructured comments and enthusiasm for this project have been almost entirely unexpected by me and I simply can't thank you enough.

Pam Stein, president of Clientize.com, helped me turn my messy, unsophisticated ideas about a survey on fundraising productivity into a sophisticated reality. Pam specializes in the development of market research studies, customer satisfaction surveys, and related database applications. She is not only an expert in this field, but has also become one of my most trusted friends and advisors. Pam, thankfully, is also tough enough to keep me focused on making this research project easy to understand, so the data we capture, collate and report on makes sense to everybody.

Linda Lysakowski, ACFRE, and I co-authored a book inspired by the Leaky Bucket Assessment, *The Leaky Bucket: What's Wrong with Your Fundraising and How You Can Fix It!*, published in August 2013 by CharityChannel Press. Thanks to Linda and our publisher Steve Nill, for "getting" this assessment. In our very first conversation, I told Linda about the Leaky Bucket assessment, saying "It's about what's wrong with your fundraising and how you can fix it." She immediately said, "Hey, that's a great title for a book. Want to write it with me?" So, we did. Steve, you had no idea what you were getting yourself into.

Let me also thank Andrew Watt, CEO of the Association of Fundraising Professionals and a transplant from the United Kingdom. Andrew told me, on one memorable occasion, that he thought the Leaky Bucket Assessment was "brilliant." When the British use that term these days, it doesn't just mean "bright and shiny." it also means "that's pretty cool!" Thanks, Andrew, for both meanings.

Resources

Assessments, Reports and Calculators from Bristol Strategy Group

[The Leaky Bucket Assessment for Effective Fundraising.](#) If you have not completed the Leaky Bucket Assessment, we invite you to do so. It is free, it takes only five minutes to complete, and your results are confidential. If you have completed an assessment in the past and would like to take it again, email us at info@bristolstrategygroup.com and we will delete your old email address so you can take it again.

[The Opportunity Risk Calculator.](#) This live spreadsheet contains embedded instructions for its use. Enter your estimates of the amount of time you spend every year on activities not directly related to raising money for your organization. The spreadsheet will calculate your Opportunity Risk Factor, the amount of income you put at risk of loss for every hour you invest in fundraising activities.

[The SMART Practices Resource Library.](#) A collection of white papers available from our website at no charge, about methods for improving the productivity of the fundraising organization.

Research Reports from the Nonprofit Sector

[The Fundraising Effectiveness Project 2013.](#) This large-scale research project is a joint venture between the Association of Fundraising Professionals and the Urban Institute, with the participation of several major software companies specializing in nonprofit applications. It has been gathering data since 2008. Research reports are available for every year since that time, up until 2013.

[Giving USA: The Annual Report on Philanthropy.](#) Giving USA provides the seminal publication reporting on the sources and uses of charitable giving in the United States. For 57 years, fundraisers, nonprofit leaders, donors and volunteers, scholars, and other individuals who work in or with the charitable sector have counted on *Giving USA* to provide the most comprehensive charitable giving data available. No other source provides the context for annual giving like *Giving USA*.

Books by Ellen Bristol

[The Leaky Bucket: What's Wrong with Your Fundraising and How You Can Fix It!](#), co-authored by Ellen Bristol and Linda Lysakowski, ACFRE, published by CharityChannel Press in August 2013. This book was inspired by the Leaky Bucket Assessment and reports on data collected through 2012. An on-line, self-paced training program, based on the book in combination with this benchmarking study will be available by fall 2014.

[Fundraising the SMART Way™: Predictable, Consistent Income Growth for Your Charity.](#) published by John Wiley and Sons in March 2014, in the AFP-Wiley Fund Development Series. *Fundraising the SMART Way™* is our methodology for sustainable fundraising, based on the continuous improvement model. It plugs the “leaks” in the fundraising discipline we see in this study.